



**Treasury Inspector
General for Tax
Administration**

Inspections and Evaluations

Highlights

Highlights of Report Number: 2008-IE-R001 to the Internal Revenue Service Commissioner, Wage and Investment Division.

WHY TIGTA DID THIS STUDY

The Internal Revenue Service (IRS) uses lockbox banks to process taxpayer payment vouchers and the associated remittances to accelerate deposits. The lockbox network processed over 67 million payments totaling in excess of \$400 billion during Fiscal Year 2007. During 2001, about 78,000 income tax payments valued at \$1.2 billion were lost or destroyed at a lockbox facility.

In January 2003, the Government Accountability Office issued a report on the lockbox banks and found significant security and processing control weaknesses. The IRS agreed with the findings presented in that report and initiated corrective actions. The objective of this review was to evaluate the controls established to process payments received in lockbox banks.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the Director, Submission Processing, ensure that next years' reviews emphasize the review of potentially late-filed extensions. If patterns similar to those TIGTA observed are found, consider the need to revise the Program Analyst System review procedures. TIGTA also recommended that the Director, Submission Processing, ensure that the instructions detailing how to process rejected extensions are clarified.

In their response to the report, IRS officials stated that they plan to develop and pilot the recommendation to evaluate whether the review will be beneficial. They have already revised instructions for resolving the discrepancies with extensions to file.

ADDITIONAL ENHANCEMENTS COULD FURTHER STRENGTHEN LOCKBOX BANK OVERSIGHT

Issued on September 8, 2008

IMPACT ON TAXPAYERS

If a taxpayer receives an extension of time to file and a late payment is erroneously processed as having been timely, the failure to file and failure to pay penalties are avoided. Penalties are imposed to encourage voluntary compliance and should be consistently applied.

WHAT TIGTA FOUND

TIGTA found that the IRS has implemented extensive review processes to provide lockbox oversight. However, some individuals whose payments were processed by lockbox banks might have received an extension to file and been erroneously credited with timely payments when they appear to have been filed late. The IRS does have a control in place to identify this condition. An automated program identifies when there is a difference between received dates for the filed extensions and the processing dates for the associated remittances. However, current lockbox processing procedures do not require either a date stamp or some other evidence to clearly show when the extension was received. Without this evidence, determining whether the cases were correctly processed is very difficult.

Furthermore, the function that processes the rejected cases has procedures that do not clearly explain how to resolve the discrepancy between an approved extension and a late payment date. Consequently, in some cases the extensions were allowed by applying an on-time filed date to the account, while in others the payments were processed with a late date and the extensions were disallowed.

We recommend that the Director, Submission Processing—who is the IRS executive responsible for lockbox operations—ensure that next years' reviews emphasize the review of potentially late-filed extensions. If patterns similar to those we observed are found, consider the need to revise review procedures. We also recommend that the Director, Submission Processing ensure that the instructions detailing how to process rejected extensions are clarified. These procedures would help ensure more accurate and consistent extension processing. IRS management agreed to both of our recommendations, and they plan to develop and pilot the recommendation to evaluate whether the review will be beneficial. They have already revised instructions for resolving the discrepancies with extensions to file.

READ THE FULL REPORT

To view the report, including the scope, methodology, and full IRS response, go to:

<http://www.treas.gov/tigta/iereports/2008reports/2008IER001fr.pdf>